Ageing Australia

Ageing Australia's submission in response to IHACPA's Consultation Paper on the Pricing Framework for Australian Residential Aged Care Services 2026-27

August 2025

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About Ageing Australia

Ageing Australia is the national peak body representing providers across the aged care sector, including retirement living, seniors housing, residential care, home care, community care and related services.

We represent the majority of service providers, working together to create a sector that empowers older Australians to age with dignity, care and respect.

We advocate for a sector that champions excellence, sustainability and innovation, ensuring our members have the tools, resources and guidance they need to deliver exceptional services.

We use our united voice to amplify our members' contributions and concerns to government, media and the wider community.

We are committed to reshaping the future of ageing in Australia by fostering collaboration and driving meaningful change, making it a fulfilling journey.

Executive summary

Ageing Australia welcomes the opportunity to provide feedback on the Independent Health and Aged Care Pricing Authority's (IHACPA's) *Consultation Paper on the Pricing Framework for Australian Residential Aged Care Services 2025-26* (Consultation Paper). This submission draws on feedback from our members, which includes over 500 residential aged care providers across Australia.

We recognise the importance of IHACPA's cost collections, which provide the foundation for its pricing advice to Government. It is therefore critical that a substantial number of providers participate in these studies, and that they represent the diversity of the sector. While many providers recognise the value of contributing to these studies, practical barriers may limit providers' capacity to do so.

Our submission highlights several key areas of concern about the funding arrangements for residential aged care. While the Base Care Tariff (BCT) changes, which came into effect from 1 October 2024, have resulted in greater funding for services in Modified Monash Model (MMM) 2-4, providers operating services in rural, regional and remote areas continue to face financial strain. This has been significantly driven by the 24/7 Registered Nurse and care minutes requirements, which have led to increased reliance on costly agency staff.

Ageing Australia is deeply concerned that providers are not receiving adequate funding to provide end-of-life care to residents, and that this issue appears to be increasingly widespread. If a provider requests an urgent assessment for a resident approaching end of life, but this is not conducted before the resident passes away, the provider will not receive funding for the higher level of care provided during that period.

We continue to advocate for changes to respite care funding as providers consistently report that the current funding is inadequate. As a result, some providers have ceased delivering respite care, while others have changed their respite service offerings (e.g. introducing a minimum stay length). This trend is concerning, given that demand for respite is likely to increase with Australia's ageing population and the growing preference to age in place, either in the community or their home.

It is also vital that providers are funded to deliver the new requirements that will come into effect when the new Aged Care Act commences on 1 November 2025. Adequate funding to cover additional training needs and meet new compliance requirements will be essential to ensure the successful implementation of the new Aged Care Act, as well as the financial sustainability of the sector.

RECOMMENDATIONS

R1 IHACPA should provide cost collection participants with feedback and sector-level insights to improve understanding of the value of their input and promote continued participation.

R2 IHACPA should explore possible ways of assisting providers to cover the costs of participating in cost collection studies, particularly for underrepresented service types.

R3 That further adjustments are made to Base Care Tariffs to better reflect the higher costs incurred by services in MMM 2-7.

R4 Ensure future funding models for the MPS program take into account key cost drivers and service characteristics.

R5 IHACPA's advice to the Government should recognise that the scale and design of aged care homes, location, resident mix, and care models are significant factors impacting the cost of providing hotel services.

R6 IHACPA should undertake a study on the cost of delivering quality end-of-life care for people in residential aged care.

R7 IHACPA should undertake a costing study to determine whether the current AN-ACC funding for residents receiving respite care accurately reflects the cost of delivering respite care. This costing study should inform IHACPA's pricing advice to Government for 2026-27.

R8 IHACPA should report to the Australian Government on pricing for each state and territory. Among other things, this should reflect variations in payroll tax and workers compensation premiums.

R9 That the Australian Government should provide funding support to providers to help cover the costs of delivering staff training related to the new Aged Care Act.

R10 IHACPA should ensure cost collection studies specifically monitor data on training and development investment during 2024-25 and 2025-26 to ensure sufficient pricing to support embedding new Aged Care Act requirements in the first few years of operation (when investment will be at its highest need).

R11 The cost of an audited statement for care minutes should be factored into IHACPA's pricing going forward.

R12 IHACPA should work with the Department to ensure that all new compliance requirements associated with the new Aged Care Act are sufficiently costed and priced.

Encouraging participation in IHACPA's cost collections

Ageing Australia's submission to last year's consultation recommended that IHACPA explore options for supporting residential aged care services to participate in cost collection studies.[1] We therefore welcome the focus in this year's Consultation Paper on how to support improved provider participation and increased representation in its cost collections.

IHACPA's cost collections provide vital data to help build the evidence base for residential aged care pricing. Many providers appreciate the value of participating in cost collections, and some report having staff who are keen to be involved. For example, a provider who participated in this year's study said their staff were excited about the opportunity to show the care they provide to their residents.

Providers who participated in the 2024 cost collection reported that the process was time-consuming and that they were not compensated for staff time spent on time-motion studies. Some providers also expressed disappointment at seeing no tangible outputs from their participation. However, providers who participated in the 2025 cost collection provided positive feedback, including that the technology was easy to use. The process changes implemented this year appear to have improved the provider experience, which may make them more likely to participate in future collections.

Some providers chose not to participate in this year's cost collection study due to competing priorities, particularly the significant time and resources required to prepare for the commencement of the new Aged Care Act.

Recommendation 1: IHACPA should provide cost collection participants with feedback and sector-level insights to improve understanding of the value of their input and promote continued participation.

Recommendation 2: IHACPA should explore possible ways of assisting providers to cover the costs of participating in cost collection studies, particularly for underrepresented service types.

Ongoing financial challenges for rural, regional and remote services

Ageing Australia welcomed the change to the Base Care Tariff (BCT) structure introduced from 1 October 2024. This important change has resulted in better recognition of the higher costs of delivering care in MMM 2-5 areas compared to metropolitan areas.

However, despite this improvement, rural, regional and remote providers continue to report significant concerns about their financial viability. The 24/7 Registered Nurse and

[1] Aged and Community Care Providers Association (2024). *Submission in response to IHACPA's Consultation Paper on the Pricing Framework for Australian Residential Aged Care Services 2025-26*. https://ageingaustralia.asn.au/wp-content/uploads/2025/01/ACCPA-submission-in-response-to-IHACPAs-Consultation-Paper-on-the-Pricing-Framework-for-Residential-Aged-Care-Services-2025-26-.pdf

care minutes responsibilities continue to drive significant financial strain for residential care services in these areas. Due to workforce shortages, many services are having to use agency staff to meet these responsibilities. This is demonstrated by StewartBrown's March 2025 Survey, which found that average agency direct staff costs (as a percentage of total direct care staff costs) were 4.7% for MMM 1 services, compared to between 10.4% and 23.9% for MMM 2-7 services. Consequently, they face significantly higher staffing costs due to paying agency staff higher hourly wages and (often) their travel and accommodation expenses. This will not be financially sustainable over time and is therefore likely to result in service closures, unless additional funding is provided.

In addition to agency costs, providers operating services in rural, regional and remote areas incur extra costs compared to metropolitan providers. For example, due to workforce shortages and lack of affordable housing, attracting and retaining skilled workers often requires above-award wages, relocation incentives and accommodation support. Furthermore, providers report they are incurring high costs associated with recruiting and onboarding applicants from overseas, whom they are increasingly relying on due to local workforce shortages. Rural and remote services also commonly incur higher fixed costs for infrastructure, utilities, and supplies compared to metropolitan settings.

Recommendation 3: That further adjustments are made to Base Care Tariffs to better reflect the higher costs incurred by services in MMM 2-7.

Multi-Purpose Services (MPS) Program

When developing recommendations for any new future funding model for the MPS Program, it will be critical that key cost drivers and characteristics of these services are taken into account. These include:

- High base operating costs due to the shared service model which includes hospitals. Such services must adhere to minimum staffing and service constraints - irrespective of the hospital's activity.
- High workforce costs, driven by higher award rates required to attract workers to remote locations, high reliance on agency staff and additional on costs related to regional loadings and staff accommodation.
- Disadvantages associated with geographic remoteness, including it being more expensive to receive goods and limited ability to benefit from economies of scale.
- The cost profiles of MPS services vary depending on the infrastructure design (e.g. whether there is a standalone residential care home or residential care beds within a hospital).
- There are generally few low care residents in residential aged care due to people staying in their homes longer. Consequently, most residents are likely to be high care, yet the current MPS funding model is not based on the actual acuity of residents, but rather a pre-determined formula.

Recommendation 4: Ensure future funding models for the MPS program take into account key cost drivers and service characteristics.

Factors contributing to variation in the cost of providing hotel services

Ageing Australia welcomes the Government's request for IHACPA's advice on the factors which can result in variation in the cost of hotel services.

The scale and design of aged care homes can result in cost variations in hotel services. For example, larger homes with centralised kitchens and laundries benefit from economies of scale. By contrast, older buildings (e.g. those which involve long travel distances between rooms and service areas) require more labour hours for cleaning and delivery of meals and laundry.

Location can also impact on the cost of hotel services. Providers operating services in rural, regional and remote areas incur higher freight and delivery surcharges and have limited access to competitive suppliers. They may also need to pay higher wages to attract chefs to work in these areas.

The cost of hotel services is also impacted by resident mix and care models. For example, residential aged care homes with a high proportion of residents with high needs (e.g. dementia or requiring palliative care) often need more frequent linen changes and cleaning service. They are also likely to have more residents with specialised dietary requirements (e.g. texture-modified diets). Data from StewartBrown's March 2025 survey provides evidence that the cost of hotel services varies depending on the acuity of residents. The survey found that the total per bed day cost for hotel services ranged from $63.27 for band 1 (highest average acuity) to $58.31 for band 4 (lowest average acuity).

Whether a home provides additional services, and the number of residents receiving them, must be considered when assessing costs and the hotelling supplement. Costs and revenue for standard services should form the basis of the supplement.

Recommendation 5: IHACPA's advice to the Government should recognise that the scale and design of aged care homes, location, resident mix, and care models are significant factors impacting the cost of providing hotel services.

Funding for end-of-life care

The process and funding for end-of-life care are key issues in the residential aged care funding model that require refinement. Currently, providers often bear the costs of delivering this care without adequate funding — particularly when an urgent assessment is requested for a resident approaching end of life but is not completed before the resident passes away. Since there is no mechanism for conducting an assessment posthumously, providers are not funded for the higher level of care provided during this period. Previously, urgent assessments were required within three days; however, in

December 2024, the Department extended this timeframe to 14 days.[2] This change increases the risk that providers will not be funded for essential end-of-life care.

Ageing Australia is receiving an increasing number of reports of this occurring. For example, over the past six months, one Member had 42 residents pass away who were bedbound, required full nursing care, active symptom management (e.g. palliative medications), and significant emotional support for both residents and families. While these residents were often in AN-ACC classes 5–11, they received care levels consistent with Class 1 or 13 towards the end-of-life. This issue appears to have become increasingly prevalent due to assessment delays since the introduction of the Single Assessment Workforce.

Actions by both IHACPA and the Department are needed to ensure providers are appropriately funded to deliver quality end-of-life care to residents. We recommend that IHACPA undertake a study on the cost of delivering quality end-of-life care for people in residential aged care. In addition, it is critical that the Department address the drivers of delays in assessments to reduce the likelihood of residents passing away before being reassessed. The Department should also reinstate the previous three day timeframe for urgent assessments.

Recommendation 6: IHACPA should undertake a study on the cost of delivering quality end-of-life care for people in residential aged care.

Ensuring offering respite care is financially sustainable

Respite care is an essential component of the aged care system, providing older people and their caregivers with the opportunity to access additional support for a short period. Some older people also use it as a way to 'try before you buy' when considering moving into a residential aged care home. The ability to access respite care can also prevent unnecessary hospitalisations and extended stays in hospitals, thereby relieving pressure on the broader health system. Providers report that demand for respite care is growing – a trend which is expected to continue in the coming years, due to Australia's ageing population and the growing preference to age in place.

We are therefore highly concerned by strong feedback from the sector that AN-ACC does not provide adequate funding to cover the cost of providing respite care. While AN-ACC funding for respite takes into consideration the needs of the resident, it does not account for the impact of the high turnover in respite. Providers report that bringing a person into respite care involves high administrative costs and a significant workload for admission.

[2] Department of Health, Disability and Ageing (2024). *Residential aged care funding assessment pathways factsheet*. https://www.health.gov.au/resources/publications/residential-aged-care-funding-assessment-pathways-fact-sheet

As noted in our submission to last year's consultation, this has led to some providers changing their respite offerings, including implementing a minimum length of stay for respite, reducing the number of respite beds offered or only making these available on an ad hoc basis. Consequently, insufficient funding under the current funding model is resulting in fewer providers offering respite services – at a time when demand is growing. At a minimum, providers should be funded to fully cover the cost of providing respite care.

Recommendation 7: IHACPA should undertake a costing study to determine whether the current AN-ACC funding for residents receiving respite care accurately reflects the cost of delivering respite care. This costing study should inform IHACPA's pricing advice to Government for 2026-27.

Accounting for variation in state-based costs

It is important that IHACPA's costing studies capture the state-based costs incurred by providers operating services in different jurisdictions. These costs can create uneven playing fields, which disadvantage providers in certain states or territories, making it less financially viable or attractive to deliver services in these areas.

One notable example is payroll tax, which imposes variable costs across jurisdictions. Each state and territory have its own payroll tax legislation, rates, and thresholds. Despite this, we understand that the datasets used by IHACPA to develop its pricing advice do not include payroll tax. This means the distortions and inefficiencies which flow from a failure to address the differential input-tax treatments of for-profit and not-for-profit aged care providers are not considered.

Utility costs, such as electricity, council rates, waste disposal and gas, can also vary significantly between states. For example, StewartBrown's March 2025 survey found electricity costs ranging from $3.53 per bed day in Victoria to $4.68 per bed day in Tasmania.

The cost of workers compensation insurance is also variable across the country, with providers in some states facing significant cost increases in recent years. For example, we are aware of a provider in NSW whose premium for their worker's compensation insurance policy for FY 2025-26 has risen by 26% on the previous year.

Recommendation 8: IHACPA should report to the Australian Government on pricing for each state and territory. Among other things, this should reflect variations in payroll tax and workers compensation premiums.

Increased training costs due to the new Aged Care Act

As providers prepare for the commencement of the new Aged Care Act from 1 November 2025, staff will need to complete significant training to understand the new requirements. This is likely to have substantial cost implications for all providers, particularly those operating services in rural, regional and remote areas. Where training

is provided to staff onsite in these areas, providers must cover the cost of engaging a training facilitator, backfill staff who participate, and often cover costs related to the facilitator's travel and accommodation. Conversely, where staff need to travel to a metropolitan area to undertake training, providers will need to cover their travel and accommodation costs.

Recommendation 9: The Australian Government should provide funding support to providers to help cover the costs of delivering staff training related to the new Aged Care Act.

Recommendation 10: IHACPA should ensure cost collection studies specifically monitor data on training and development investment during 2024-25 and 2025-26 to ensure sufficient pricing to support embedding new Aged Care Act requirements in the first few years of operation (when investment will be at its highest need).

Compliance costs associated with the new Aged Care Act

It will be important for IHACPA's pricing advice to Government to account for the additional costs providers will incur in meeting new compliance requirements under the new Aged Care Act. For example, from FY2025-26, all residential aged care providers will be required to prepare and submit a care minutes performance statement, which will require an external auditor to audit their care minutes performance statement as part of their Aged Care Financial Report. During Senate Estimates on 26 February 2025, Department officials estimated obtaining an audited statement will cost providers $5,000 and confirmed providers will have to absorb this cost.[3]

Recommendation 11: That the cost of an audited statement for care minutes be factored into IHACPA's pricing going forward.

Recommendation 12: That IHACPA works with the Department to ensure that all new compliance requirements associated with the new Aged Care Act are sufficiently costed and priced.

[3] Commonwealth of Australia (2025). *Senate Community Affairs Legislation Committee Estimates*, 26 February 2025. https://parlinfo.aph.gov.au/parlInfo/download/committees/estimate/28744/toc_pdf/Community%20Affairs%20Legislation%20Committee_2025_02_26_Official.pdf;fileType=application%2Fpdf#search=%22committees/estimate/28744/0000%22